

**EGG HARBOR TOWNSHIP  
MUNICIPAL UTILITIES AUTHORITY  
(A component unit of the Township of Egg Harbor)  
REPORT OF AUDIT  
FOR THE YEARS ENDED  
AUGUST 31, 2017 AND 2016**



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# FORD - SCOTT

& ASSOCIATES, L.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

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## **Independent Auditor's Report**

The Chairman and Members of the  
Egg Harbor Township Municipal Utilities Authority  
(A component unit of the Township of Egg Harbor)  
County of Atlantic, New Jersey

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the business-type activities of the Egg Harbor Township Municipal Utilities Authority (A component unit of the Township of Egg Harbor) in the County of Atlantic, State of New Jersey, as of and for the year ended August 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Egg Harbor Township Municipal Utilities Authority (A component unit of the Township of Egg Harbor) in the County of Atlantic, State of New Jersey, as of August 31, 2017 and 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### **Other Matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Required Supplementary Information identified in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Egg Harbor Township Municipal Utilities Authority's (A component unit of the Township of Egg Harbor) basic financial statements. The supplemental schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplemental schedules listed in the table of contents are the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion the supplemental schedules listed in the table of contents is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report May 29, 2018 on our consideration of the Egg Harbor Township Municipal Utilities Authority's (A component unit of the Township of Egg Harbor) internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Egg Harbor Township Municipal Utilities Authority's (A component unit of the Township of Egg Harbor) internal control over financial reporting and compliance.

Very truly yours,

*Ford, Scott & Associates, L.L.C.*  
FORD, SCOTT & ASSOCIATES, L.L.C.  
CERTIFIED PUBLIC ACCOUNTANTS

*Nancy Sbrolla*  
Nancy Sbrolla  
Certified Public Accountant  
Registered Municipal Accountant  
No. 542

May 29, 2018

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## **REQUIRED SUPPLEMENTARY INFORMATION**

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

This section presents management's analysis of the Authority's financial condition and activities for the year. This information should be read in conjunction with the financial statements.

### Financial Highlights

Management believes the Authority's financial condition is stable. The Authority is well within the debt covenants and the more stringent financial policies and guidelines set by the Board. The following are key financial highlights:

- Total assets and deferred outflows at year-end were \$39,448,245 and exceeded liabilities and deferred inflows in the amount of \$32,087,816 (i.e. net position). The \$900,118 classified as unrestricted was available to support short-term operations. Total assets decreased \$365,785 and total net position decreased \$103,107.
- For fiscal year 2017, the Authority collected and sent to the Atlantic County Utilities Authority for treatment approximately 1,013 million gallons of wastewater, compared to 1,040 million gallons of wastewater in 2016.
- Operating revenues were \$5,986,805 an increase from the year 2016 in the amount of \$60,829. Total operating revenues were more than budget projections by \$62,805.
- Operating expense decreased \$425,394 from 2016.
- Operating loss for the year was \$28,368. The loss is \$486,223 less than the loss in 2016. After non-operating revenues and expenses and capital contributions net assets decreased \$103,107.

### Overview of Annual Financial Report

Management's Discussion and Analysis (MD&A) serves as an introduction to, and should be read in conjunction with, the basic audited financial statements and supplemental information. The MD&A represents management's examination and analysis of the Authority's financial condition and performance. Summary financial statement data, key financial and operational indicators used in the Authority's capital plan, budget bond resolutions and other management tools were used for this analysis.

The financial statements report information about the Authority using full accrual accounting methods as utilized by similar business activities in the private sector. However, rate-regulated accounting principles applicable to private sector utilities are not used by government utilities. The financial statements include a statement of net position; a statement of changes in net position; a statement of cash flows; and notes to the financial statements.

The **statement of net position** presents the financial position of the Authority on a full accrual historical cost basis. The statement of net position presents information on all of the Authority's assets and liabilities, with the difference reported as net position. Over time, increases and decreases in net position are one indicator of whether the financial position of the Authority is improving or deteriorating.

While the statement of net position provides information about the nature and amount of resources and obligations at year-end, the **statement of changes in net position** presents the results of the business activities over the course of the fiscal year and information as to how the net position changed during the year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. This statement also provides certain information about the Authority's recovery of its costs.

The **statement of cash flows** presents changes in cash and cash equivalents, resulting from operational, financing, and investing activities. This statement presents cash receipts and cash disbursement information, without consideration of the earnings event, when an obligation arises, or depreciation of capital assets.

The **notes to the financial statements** provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information about the Authority's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies and subsequent events, if any. **Supplementary information** comparing the budget to actual expenses, as well as important debt coverage data, is provided.

### **Summary of the Organization and Business**

The Authority was created to construct and operate a wastewater collection system to serve the municipality of Egg Harbor Township, New Jersey. The Authority is a component unit of the Township of Egg Harbor.

As a public body, under existing statute, the Authority is exempt from both federal and state taxes.

The Authority has no taxing power. Operational and maintenance costs are funded from customer fees and charges. The acquisition and construction of capital assets are funded by capital (cash and systems) contributions from customers, including developers, Federal and State grants and loans, and customer revenues.

## **Financial Analysis**

The following comparative condensed financial statements and other selected information serve as the key financial data and indicators for management, monitoring and planning. Comments regarding budget-to-actual variances and year-to-year variances are included in each section by the name of the statement or account.

## **Condensed Financial Statements**

### **Condensed Statement of Net Position**

	<b>August 31</b>		
	<b><u>2017</u></b>	<b><u>2016</u></b>	<b><u>2015</u></b>
Capital assets:			
Producing assets	\$ 34,264,420	34,861,498	34,465,919
Construction in progress	1,151,868	454,751	742,812
Current assets, restricted assets and bond costs	3,658,713	4,083,439	4,294,038
<b>Total assets</b>	<b><u>39,075,001</u></b>	<b><u>39,399,688</u></b>	<b><u>39,502,769</u></b>
Deferred outflows	413,244	513,475	29,983
<b>Total assets</b>	<b><u>\$ 39,488,245</u></b>	<b><u>39,913,163</u></b>	<b><u>39,532,752</u></b>
Current liabilities	1,345,017	1,376,918	931,619
Long term liabilities	5,741,803	6,244,477	5,702,518
<b>Total liabilities</b>	<b><u>7,086,820</u></b>	<b><u>7,621,395</u></b>	<b><u>6,634,137</u></b>
Deferred inflows	313,609	100,845	102,650
Net position:			
Restricted or net invested in capital assets	31,061,857	30,861,676	31,588,098
Unrestricted	1,025,959	1,329,247	1,207,867
<b>Total net position</b>	<b><u>32,087,816</u></b>	<b><u>32,190,923</u></b>	<b><u>32,795,965</u></b>
<b>Total liabilities and net position</b>	<b><u>\$ 39,488,245</u></b>	<b><u>39,913,163</u></b>	<b><u>39,532,752</u></b>

### Condensed Statement of Changes in Net Position

	2017		2016	2015
	Actual	Budget	Actual	Actual
<b>Revenues:</b>				
Wastewater service revenues	\$ 5,904,804	5,839,000	5,821,652	5,828,978
Other revenues	82,001	85,000	104,324	109,207
<b>Total operating revenues</b>	<u>5,986,805</u>	<u>5,924,000</u>	<u>5,925,976</u>	<u>5,938,185</u>
<b>Expenses:</b>				
Operating, before depreciation				
Wastewater	3,998,095	4,321,500	4,299,229	3,925,134
Depreciation	1,159,770		1,207,044	1,166,978
General and Administrative	857,308	818,971	934,294	743,317
<b>Total operating expenses</b>	<u>6,015,173</u>	<u>5,140,471</u>	<u>6,440,567</u>	<u>5,835,429</u>
<b>Operating Income/ (Loss)</b>	(28,368)	783,529	(514,591)	102,756
Non-operating revenue (expense) net	<u>(74,739)</u>	<u>(332,497)</u>	<u>(90,451)</u>	<u>(115,575)</u>
Increase (decrease) in net position, before contributions	<u>(103,107)</u>	<u>451,032</u>	<u>(605,042)</u>	<u>(12,819)</u>
<b>Capital Contributions:</b>				
Developer Contributions of system	-	-	-	-
<b>Increase (decrease) in net position</b>	<u>\$ (103,107)</u>	<u>451,032</u>	<u>\$ (605,042)</u>	<u>(12,819)</u>

### Other Selected Information

	2017	2016	Change	
			Amount	%
<b>Selected data for analysis</b>				
Employees at year end				
Full Time	5	5	0.0	0.0%
Part Time	9	9	0.0	0.0%
Number of sewer customers at year end	14,009	13,813	196.0	1.4%
Wastewater collected (million of gallons)	1,013	1,040	(27.0)	-2.6%
<b>Revenue per thousands of gallons treated</b>	5.86	5.71	0.2	2.7%
<b>Expenses per thousands of gallons treated</b>				
Expenses excluding depreciation and G&A	3.9	3.8	0.075	2.0%
Expenses excluding depreciation	4.6	4.5	0.109	2.4%
Expenses	5.8	5.6	0.161	2.9%

## General Trends and Significant Events

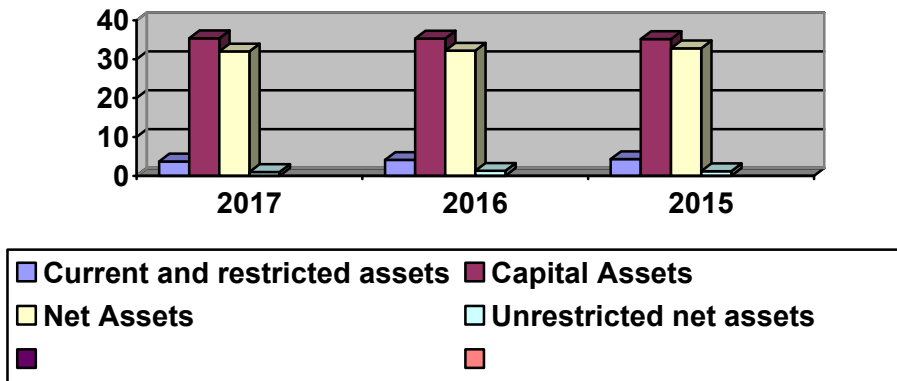
Egg Harbor Township is a growing township. During the fiscal year ended August 31, 2017 the Authority issued 62 connection permits compared to 77 permits issued in fiscal year 2016.

The expansion of the wastewater collection system has been minimal over the past two years. The residential rates for the years 2017 and 2016 are \$332 and \$332, respectively. The excess rates for the years 2017 and 2016 are \$5.75 and \$5.75 per thousand gallons, respectively.

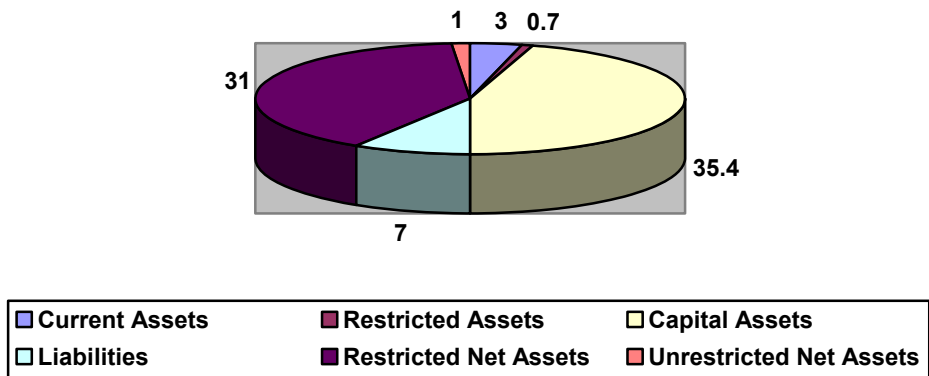
## Financial Condition

The Authority's financial condition has not changed in the current fiscal year. The expenditures for capital projects have caused the Authority to reevaluate the need to increase rates and to finance capital projects with long-term debt. The following charts summarize the statement of net position with comparisons to the prior year.

**Assets and Net Position in millions**



**FY 2016 Statement of Net Position (in mil.)**



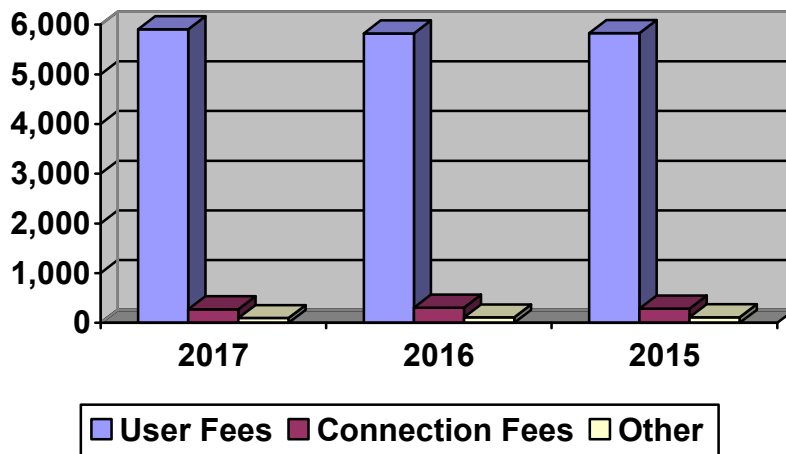
Total assets decreased \$324,687 or .82%. The two major factors were a increase in cash of \$346,851 and in capital assets of \$100,039 and a decrease in due from NJEIT of \$109,355.

Investments in capital assets, net of related debt decreased \$315,107

**Results of Operations**

**Revenues:** Revenues fall into three general categories: user fees, connection fees, and other. The following chart depicts revenues for the past three years.

**Revenues (in thousands)**



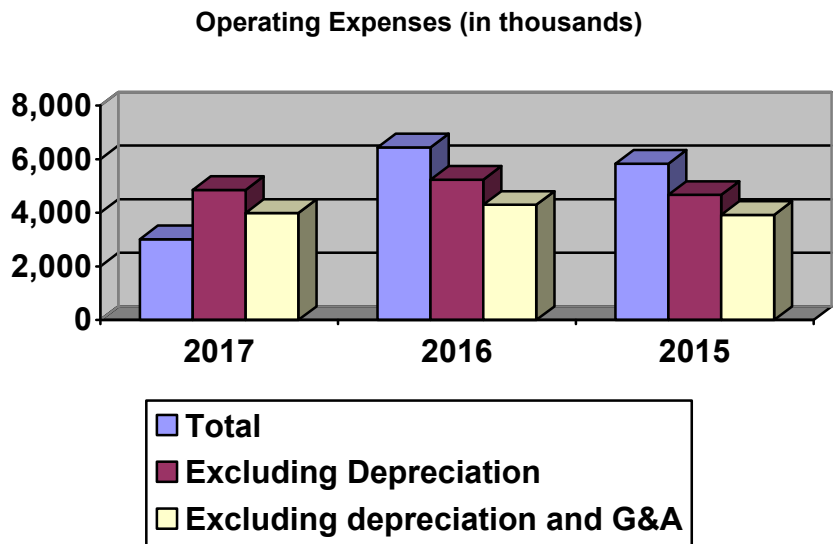
The Authority's sewer user charges have not increased over the past two years. Connection fee revenue decreased approximately \$31,150.



The Authority collects connection fees in order to ensure that current customers do not bear the entire burden of growth. The fees are paid by new customers and represent, on a residential equivalent basis, the cost of the current system/current users.

The Authority also receives additions to its collections systems from developers. Prior to GASB 33 and 34 implementation, the system assets received were recorded as direct contributions to the equity. GASB 33 and 34 defined these fees as non-operating revenues and requires reporting the amounts through the Statement of revenues, Expenses and Changes in Net Assets.

**Expenses:** Total operating expenses of the Authority decreased approximately \$384,296. Operating expenses, including and excluding depreciation, for the last three years are graphed below:



The following chart provides changes in system expenses with and without depreciation and general and administrative expenses.

	Actual Amounts in 000s		
	<u>2017</u>	<u>2016</u>	<u>2015</u>
<b>Operating Expenses:</b>			
Total	\$ 6,015	6,441	5,835
Excluding depreciation	4,855	5,233	4,668
Excluding depreciation and general & admin.	3,998	4,299	3,925

The following table shows the composition of operating expenses by major classification of expense for the last three years:

	Actual Amounts in 000s					
	2017		2016		2015	
Salaries	\$ 297	4.94%	\$ 286	4.44%	\$ 342	5.86%
Fringe	259	4.31%	343	5.33%	196	3.36%
Professional services	177	2.94%	186	2.89%	174	2.98%
Utilities	196	3.26%	208	3.23%	204	3.50%
Treatment costs	2,567	42.68%	2,608	40.49%	2,538	43.50%
Repairs and maintenance	975	16.21%	1,225	19.02%	962	16.49%
Other	384	6.38%	378	5.87%	252	4.32%
Depreciation	1,160	19.29%	1,207	18.74%	1,167	20.00%
	<u>\$6,015</u>	<u>100.00%</u>	<u>\$6,441</u>	<u>107.08%</u>	<u>\$ 5,835</u>	<u>90.59%</u>

The total change was \$(425,394). Most categories only changed by immaterial amounts.

### Cash Flow Activity

The following table shows the Authority's ability to generate net operating cash. Net cash provided by operating activities is shown both in total dollars and as a percentage of operating revenues.

	2017	2016	2015
Total operating revenues	\$ 5,963,841	6,094,979	5,795,677
Net cash provided/ (used) by operations	1,082,896	2,036,480	1,089,481
Net operating cash as a % of operating revenue	18.16%	33.41%	18.80%

### Capital Assets and Debt Administration

Capital assets, net of depreciation, increased \$100,039 during 2017. Property and equipment in service, excluding depreciation, increased \$1,259,809.

There are numerous areas of capital rehabilitation work. These projects should be completed by the end of calendar year 2017.

### Capital Assets, Net of Depreciation

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Sewer Lines	\$34,219,108	34,856,049	34,457,744
Vehicles	-	-	-
Operations Equipment	45,312	5,449	8,175
Construction in Progress	1,151,868	454,751	742,812
Total	<u>\$35,416,288</u>	<u>\$35,316,249</u>	<u>35,208,731</u>

**Long-term Debt.** At the end of the current fiscal year, the Authority had total bonded debt outstanding of \$4,710,756.

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Revenue Bonds	\$ 4,710,756	4,925,825	4,941,872

### Economic Factor and Next Year's Budget and Rates

- The anticipated growth in the Township is not expected to change over the next few years.
- There are projected to be continued minimal rate increases over the next number of years.

All of these factors were considered in preparing the Authority's budget for the period ended December 31, 2018.

### Requests for Information

This financial report is designed to provide a general overview of the Authority's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Authority Clerk, EHTMUA, 3515 Bargaintown Road, Egg Harbor Township, NJ 08234.

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## **FINANCIAL SECTION**

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# **BASIC FINANCIAL STATEMENTS**

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**EGG HARBOR TOWNSHIP MUNICIPAL UTILITIES AUTHORITY**  
**(A component unit of the Township of Egg Harbor)**  
**COMPARATIVE STATEMENT OF NET POSITION**

**ASSETS**

	<b>AUGUST 31,</b>	
	<b>2017</b>	<b>2016</b>
<b>Current assets:</b>		
Cash	\$ 2,585,407	2,953,688
Petty cash and change fund	3,546	3,546
Accounts receivable	379,140	347,660
	<u>2,968,093</u>	<u>3,304,894</u>
Total current assets		
<b>Restricted assets:</b>		
Cash	686,466	665,036
Due from NJEIT	4,154	113,509
	<u>690,620</u>	<u>778,545</u>
Total restricted assets		
<b>Capital assets:</b>		
Construction in progress	1,151,868	454,751
Depreciable capital assets, net of depreciation	34,264,420	34,861,498
	<u>35,416,288</u>	<u>35,316,249</u>
Total capital assets		
<b>Total assets</b>	<u>39,075,001</u>	<u>39,399,688</u>
<b>Deferred outflow of resources:</b>		
Deferred outflows related to bond issue	72,624	80,406
Deferred outflows related to pensions	340,620	433,069
	<u>413,244</u>	<u>513,475</u>
<b>Total deferred outflows</b>		
<b>Total Assets and Deferred Outflows</b>	<u>\$ 39,488,245</u>	<u>39,913,163</u>

The accompanying notes are an integral part of the financial statements

**EGG HARBOR TOWNSHIP MUNICIPAL UTILITIES AUTHORITY**  
**(A component unit of the Township of Egg Harbor)**  
**COMPARATIVE STATEMENT OF NET POSITION**

**LIABILITIES AND NET POSITION**

	<b>AUGUST 31,</b>	
	<u><b>2017</b></u>	<u><b>2016</b></u>
<b>Current liabilities:</b>		
Accounts payable	\$ 170,204	249,669
Other Liabilites	1,126	4,290
Prepaid User Charges	584,324	575,808
Accrued interest payable	<u>19,241</u>	<u>27,544</u>
Total current liabilities	<u>774,895</u>	<u>857,311</u>
<b>Current liabilities payable from restricted assets:</b>		
Escrow and infrastructure deposits	315,054	304,539
Bonds and notes payable	<u>255,068</u>	<u>215,068</u>
Total current liabilities payable from restricted assets:	<u>570,122</u>	<u>519,607</u>
<b>Long term liabilities:</b>		
Compensated absences	144,199	128,451
Net pension obligation	1,141,916	1,405,269
Bonds and notes payable	<u>4,455,688</u>	<u>4,710,757</u>
Total long term liabilities	<u>5,741,803</u>	<u>6,244,477</u>
<b>Total liabilities</b>	<u>7,086,820</u>	<u>7,621,395</u>
<b>Deferred inflows of resources:</b>		
Deferred inflows related to bond issue	59,933	66,356
Deferred inflows related to pensions	<u>253,676</u>	<u>34,489</u>
<b>Total deferred inflows</b>	<u>313,609</u>	<u>100,845</u>
<b>Net position:</b>		
Net investment in capital assets	30,690,445	30,501,179
Restricted for capital activity and debt service	371,412	360,497
Unrestricted		
Fund balance	<u>1,025,959</u>	<u>1,329,247</u>
<b>Total net position</b>	<u>32,087,816</u>	<u>32,190,923</u>
<b>Total liabilities and net position</b>	<u><u>\$ 39,488,245</u></u>	<u><u>\$ 39,913,163</u></u>

The accompanying notes are an integral part of the financial statements

**EXHIBIT B**

**EGG HARBOR TOWNSHIP MUNICIPAL UTILITIES AUTHORITY**  
**(A component unit of the Township of Egg Harbor)**  
**COMPARATIVE STATEMENT OF ACTIVITIES**  
**FOR THE YEARS ENDED**

	<b>AUGUST 31,</b>	
	<b>2017</b>	<b>2016</b>
<b>Operating revenues:</b>		
User Charges	\$ 5,904,804	\$ 5,821,652
Delinquent Charges	68,973	66,157
Miscellaneous	13,028	38,167
Total operating revenues	5,986,805	5,925,976
<b>Operating expenses :</b>		
Administrative and General	857,308	934,294
Cost of Providing Services	3,998,095	4,299,229
Depreciation	1,159,770	1,207,044
Total operating expenses	6,015,173	6,440,567
Operating (Loss)	(28,368)	(514,591)
<b>Non-operating revenue (expense):</b>		
Investment Income	11,227	4,319
Connection Fees	274,233	305,383
Amortization of bond issue costs	(5,188)	(2,594)
Amortization of premium on refunding	4,281	2,141
Municipal Contribution	(250,000)	(250,000)
Bond and Note Interest	(109,293)	(149,700)
Total non-operating expense	(74,739)	(90,451)
<b>(Decrease) in net asset, before capital contributions</b>	(103,107)	(605,042)
<b>Capital contributions:</b>		
Developer contributions of systems	-	-
Total capital contributions	-	-
<b>(Decrease) in net position</b>	(103,107)	(605,042)
<b>Net position at beginning of year</b>	32,190,923	32,795,965
<b>Net position at end of year</b>	\$ 32,087,816	\$ 32,190,923

## EXHIBIT C

**EGG HARBOR TOWNSHIP MUNICIPAL UTILITIES AUTHORITY**  
**(A component unit of the Township of Egg Harbor)**  
**COMPARATIVE STATEMENT OF CASH FLOWS**  
**FOR THE YEARS ENDED**

	<b>AUGUST 31,</b>	
	<b>2017</b>	<b>2016</b>
<b>Cash flows from operating activities:</b>		
Cash received from customers	\$ 5,963,841	\$ 6,094,979
Cash paid to suppliers and employees	(4,880,945)	(4,058,499)
Net cash provided by operating activities	<u>1,082,896</u>	<u>2,036,480</u>
<b>Cash flows from investing activities:</b>		
Investment Income	11,227	4,319
Net cash provided by investing activities	<u>11,227</u>	<u>4,319</u>
<b>Cash flows from capital and related financing activities:</b>		
Purchase of property plant and equipment	(1,260,716)	(1,314,562)
Municipal Contribution	(250,000)	(250,000)
Connection fees	274,233	305,383
NJEIT Loan	109,355	-
Net change in developers escrows	10,515	153,537
2007 Bond Refunding Escrow	-	172,473
Principal payment on bonds	(215,068)	(225,572)
Interest paid on bonds	(109,293)	(149,700)
Net cash provided by capital and related activities	<u>(1,440,974)</u>	<u>(1,308,441)</u>
<b>(Decrease) in cash and cash equivalents</b>	(346,851)	732,358
Cash and cash equivalents at beginning of year	<u>3,622,270</u>	<u>2,889,912</u>
<b>Cash and cash equivalents at end of year</b>	<u>\$ 3,275,419</u>	<u>\$ 3,622,270</u>
<b><u>Reconciliation to balance sheet:</u></b>		
Unrestricted Cash	\$ 2,588,953	\$ 2,957,234
Restricted Cash	686,466	665,036
	<u>\$ 3,275,419</u>	<u>\$ 3,622,270</u>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>		
Operating (loss)	\$ (28,368)	\$ (514,591)
Adjustments:		
Depreciation	1,159,770	1,207,044
Change in Assets and Liabilities:		
(Decrease)/Increase in Net Pension Liability	(263,353)	597,956
(Increase) decrease in Accounts Receivable	(31,480)	8,454
Change in Deferred Inflows/Outflows	312,995	485,297
Increase(Decrease) in Accounts Payable	(79,465)	95,624
(Decrease) in NJEIT Payable	-	(20,475)
Increase in Prepaid User Charges	8,516	160,549
Increase in Compensated Absences	15,748	16,258
Increase (decrease) in Other Liabilities	(11,467)	364
<b>Net cash provided (used) by operating activities</b>	<u>\$ 1,082,896</u>	<u>\$ 2,036,480</u>
<b>Noncash capital and related financing activities:</b>		
Developers contributions of system	<u>\$ -</u>	<u>\$ -</u>

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**Note 1. Organization**

The Egg Harbor Township Municipal Utilities Authority was created to construct and operate a wastewater collection system to serve the municipality of Egg Harbor Township, New Jersey. The Authority is a component unit of the Township of Egg Harbor.

As a public body, under existing statute, the Authority is exempt from both federal and state taxes.

**Note 2. Summary of Significant Accounting Policies**

The following is a summary of the more significant accounting policies:

**Reporting Entity**

The Authority's financial statements include the accounts of all authority operations. The Authority, as a component unit of the Township of Egg Harbor, is financially accountable to the Township. The primary criterion for including activities within the Authority's reporting entity, as set forth in Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards, is whether:

- the organization is legally separate (can sue or be sued in their own name)
- the Authority holds the corporate powers of the organization
- the Township appoints a voting majority of the organization's board
- the Authority is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the Authority
- there is a fiscal dependency by the organization on the Authority

Based on the aforementioned criteria, the Authority has no component units.

The Authority, as a component unit, issues separate financial statements from the Township.

**Basis of Financial Statements**

The Authority's financial statements are presented on the full accrual basis in accordance with accounting principles generally accepted in the United States of America.

All activities of the Authority are accounted for within a single proprietary (enterprise) fund. Proprietary funds are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The accounting and financial reporting treatment applied to the Authority is determined by its measurement focus. The transactions of the Authority are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the balance sheet. Net assets (i.e. total assets net of total liabilities) are segregated into "invested in capital assets, net of related liabilities"; "restricted for capital activity and debt service"; and "unrestricted" components.

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**2. Summary of Significant Accounting Policies (Continued)**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet date, and reported amounts of revenues and expenses during the reporting period. Estimates are used to determine depreciation expense, the allowance for doubtful accounts and certain claims and judgment liabilities, among other accounts. Actual results may differ from those estimates.

**Budgets and Budgetary Accounting**

An annual operating budget is required to be adopted and integrated into the accounting system to provide budgetary control over revenues and expenditures in accordance with NJSA 40A:5A. The operating budget adopted annually covers the operations of the authority. The current operating budget details the Authority's plans to earn and expend funds for charges incurred for the operation, maintenance, certain interest and general functions, and other charges for the fiscal year.

**Risks of Loss**

The Authority purchases commercial insurance policies on an annual basis to handle risks of loss associated with property, auto, liability, workers compensation, flood damage, and employee crime coverage. Any potential liability of the Authority with respect to loss claims would be equal to the deductibles associated with the policies and an event, which may exceed policy coverage limits.

**Cash and Cash Equivalents**

Cash and cash equivalents include various checking and money market accounts, U.S. obligations and certificates of deposit with maturities of three months or less.

**Investments**

Investments are carried at fair market value with associated premiums and discounts amortized over the term of the investment held.

Purchase of investments is limited by N.J.S.A. 40A:5-15.1 to bonds or obligations of or guaranteed by the federal government and to bonds or other obligations of federal or local units. These investments are required to have a maturity date not more than twelve months from the date of purchase.

**Restricted Net Assets**

Restricted net assets represent cash and investments maintained in accordance with bond resolutions, grant awards, and other resolutions and formal actions of the Authority or by agreement for the purpose of funding certain debt service payment, and improvements and extensions to the utility system.

**Restricted net assets:**

Debt Service Fund	\$	371,412
		<u>371,412</u>
		<u>\$ 371,412</u>

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**2. Summary of Significant Accounting Policies (Continued)**

**NJEIT Loan Funds Receivable**

The Authority receives loan monies from the New Jersey Environmental Infrastructure Trust (NJEIT) on a reimbursement basis whereby the Authority receives loan payments upon submission of a reimbursement voucher. The receivable represents the loan funds that have yet to be received.

**Funds**

In accordance with the provisions of the Bond Resolution authorizing the issuance of the Revenue Bonds, revenues and expenditures are to be accounted for in the following funds:

General Fund - All revenues, except connection charges and operating expense charges, derived from the operations of the Authority are pledged to secure the payment of principal and interest on the Bonds. Transfers are made to funds in the following order:

- 1) Debt Service Sinking Fund
- 2) Bond Redemption & Improvement Fund - General Account
- 3) Operating Fund

Operating Fund - Transfers are made equal to budgeted operating expenses for the current year and such additional amount as is necessary to maintain a \$10,000 fund reserve. At year end, this fund is adjusted to reflect the actual expenses incurred.

Debt Service Sinking Fund - First transfers are made for an amount sufficient to meet the principal and interest requirements for the year. No requirement is made to maintain a balance in this fund.

Debt Service Reserve Fund - This fund was fully funded as of August 31, 2011. As part of the issue the Authority purchased a surety bond in lieu of restricting funds. The surety bond covers both the 1997 refunding and the 2007 issue.

Capital Fund - The Authority's collection system, property and equipment which was constructed or acquired with the proceeds of the Revenue Bonds, are accounted for herein.

**Plant and Equipment**

Plant and equipment in service and construction in progress are recorded at cost, if purchased or constructed. Assets acquired through contributions from developers or other customers are capitalized at their estimated fair market value, if available, or at engineers' estimated fair market value or cost to construct at the date of the contribution. Internal engineering costs are capitalized to the extent of direct support and contribution to construction and expansion projects.

Maintenance and repairs, which do not significantly extend the value or life of plant and equipment, are expensed as incurred.

Depreciation is determined on a straight-line basis for all plant and equipment. Depreciation expense for 2017 and 2016 was \$1,159,770 and \$1,207,044 respectively. Depreciation is provided over the following estimated useful lives:

Sewer Lines	40 years
Operations Equipment	10 years
Vehicles	5 years

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Office Equipment

5 years

**2. Summary of Significant Accounting Policies (Continued)**

**Inventories of Supplies**

The cost of inventories and supplies for all funds are recorded as expenditures at the time the individual items are purchased. The Authority does not maintain any construction inventory.

**Revenues and Rate Structure**

Revenues from wastewater services are recognized on the accrual basis as earned. Services are supplied to customers under a rate structure designed to produce revenues sufficient to provide for operating and maintenance costs, capital outlay, debt service, reserves and debt service coverage.

**Capital Contributions**

Contributions are recognized in the Statement of Activities when earned. Contributions include developer contributed utility systems, capital grants, and other supplemental support by other utilities and industrial customers and federal, state and local grants in support of system improvements.

**Net Position**

Net position comprises the various net earnings from operating and non-operating revenues, expenses and contributions of capital. Net position is classified in the following three components: net investment in capital assets; restricted for capital activity and debt service; and unrestricted net position. Net investment in capital assets, consists of all capital assets, net of accumulated depreciation and reduced by outstanding debt that is attributable to the acquisition, construction and improvement of those assets; debt related to unspent proceeds or other restricted cash and investments is excluded from the determination. Restricted for capital activity and debt service consists of net assets for which constraints are placed thereon by external parties, such as lenders, grantors, contributors, laws, regulations and enabling legislation, including self-imposed legal mandates, less any related liabilities. Unrestricted consists of all other net assets not included in the above categories.

**Pension**

Pensions: For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Public Employee Retirement System (PERS) and additions to/deductions from the fiduciary net position have been determined on the same basis as they are reported by the PERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**RECENT ACCOUNTING PRONOUNCEMENTS NOT YET EFFECTIVE**

In June 2015, the Governmental Accounting Standards Board (GASB) issued Statement No. 75 "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions". This statement, which is effective for fiscal periods beginning after June 15, 2017, will not have any effect on the Authority's financial reporting.

In November 2016, the Governmental Accounting Standards Board (GASB) issued Statement No. 83, "Certain Asset Retirement Obligations". This statement is effective for fiscal periods beginning after June 15, 2018, will not have any effect on the Authority's financial reporting.



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In January 2017, the Governmental Accounting Standards Board (GASB) issued Statement No. 84, "Fiduciary Activities". This statement is effective for fiscal periods beginning after December 15, 2018, will not have any effect on the Authority's financial reporting.

In March 2017, the Governmental Accounting Standards Board (GASB) issued Statement No. 85, "Omnibus 2017". This statement is effective for fiscal periods beginning after June 15, 2017, will not have any effect on the Authority's financial reporting.

In May 2017, the Governmental Accounting Standards Board (GASB) issued Statement No. 86, "Certain Debt Extinguishment Issues". This statement is effective for fiscal periods beginning after June 15, 2017, will not have any effect on the Authority's financial reporting.

In June 2017, the Governmental Accounting Standards Board (GASB) issued Statement No. 87, "Leases". This statement is effective for fiscal periods beginning after December 15, 2019, will not have any effect on the Authority's financial reporting.

**Note 3. Investments**

As of August 31, 2017 and 2016, the Authority had no investments.

**Interest Rate Risk.** The authority does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. However, New Jersey Statutes 40A:5-15.1(a) limits the length of time for most investment to 397 days.

**Credit Risk.** New Jersey Statutes 40A:5-15.1(a) limits authority investments to those specified in the Statutes. The type of allowable investments are Bonds of the United States of America or of the authority or the local units in which the authority is located; obligations of federal agencies not exceeding 397 days; government money market mutual funds; the State of New Jersey Cash Management Plan; local government investment pools; or repurchase of fully collateralized securities.

**Concentration of Credit Risk.** The authority places no limit on the amount the authority may invest in any one issuer.

**Note 4. Cash**

**Custodial Credit Risk—Deposits.** Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The authority's policy is based on New Jersey Statutes requiring cash be deposited only in New Jersey based banking institutions that participate in the New Jersey Governmental Depository Protection Act (GUDPA) or in qualified investments established in New Jersey Statutes 18A:20-37 that are treated as cash equivalents. As of August 31, 2017 and 2016, \$130,280 and \$99,108 of the government's bank balance of \$3,078,091 and \$3,563,375 respectively, was exposed to custodial credit risk.

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**Note 5. Long-Term Obligations**

Long-term debt as of August 31, 2017 consisted of the following:

\$4,280,000 Revenue bonds dated 12/28/07, payable in annual installments through 1/1/2032. Interest is paid semiannually at a rate of 4.375% to 5% per annum. The bonds were refinanced during 2016. The balance remaining as of August 31, 2017 was \$175,000.

\$3,590,000 Revenue Refunding bonds dated 4/19/16, payable in annual installments through 2032. Interest is paid semiannually at varying interest rates between 1% to 4% per annum. The balance remaining at August 31, 2017 was \$3,585,000.

**New Jersey Environmental Infrastructure Trust**

In fiscal year 2015, the Authority received several loans from the State of New Jersey under the Wastewater Treatment Trust Program/Environmental Infrastructure Trust Program (“NJEIT Trust”) for improvements to the Authority’s wastewater system and drinking water projects. The NJEIT Trust has issued bonds for loans to various entities. The loan is on the reimbursement basis whereby the Authority receives loan payments upon submission of a reimbursement voucher to the Trust Fund. Interest and an administrative fee are charged on the trust loan and interest is credited to the Authority’s account on funds not yet received. The funds on hand at the NJEIT Trust for loans committed to the Authority are drawn down subject to the approval of the NJEIT Trust. The Trust loans have interest rates ranging from 0.22% to 5.00% and mature in various increments through 2035.

Under the Wastewater Treatment Fund Program/Environmental Infrastructure Fund Program (“NJEIT Fund”), the State extended several noninterest-bearing loans. When a project is completed the final expenditures report is submitted to the State. If the total project cost is less than the loan amount, the State will make an adjustment to the final loan payment and reduce the liability accordingly. As of August 31, 2017 and 2016 there was \$4,154, and \$113,509, respectively, in loan funds receivable from NJEIT Trust and Fund.

The NJEIT Trust and NJEIT Fund Loans are subordinate to the Revenue Bonds issued under the Bond Resolution of the Authority. In the event of any insolvency or bankruptcy proceedings, holders of the Revenue Bonds shall be entitled to receive payment in full of all payments due before the holders of outstanding Authority Subordinate Bonds are entitled to receive any payment from the Gross Revenues (as defined in the General Bond Resolution).

The balance at August 31, 2017 was as follows:

Issue	Trust	Fund	Total
Series 2015	<u>\$ 250,000</u>	<u>700,756</u>	<u>950,756</u>

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Principal and interest requirements until maturity are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	255,068	116,344	371,412
2019	260,068	109,944	370,012
2020	265,068	104,118	369,186
2021	275,068	97,581	372,649
2022	275,068	92,019	367,087
2023-2027	1,515,342	339,581	1,854,923
2028-2032	1,710,342	128,044	1,838,386
2033-2035	154,730	4,588	159,318
		-	
	\$ 4,710,756	992,219	5,702,975

	<u>Balance</u> <u>8/31/2016</u>	<u>Increased</u>	<u>Decreased</u>	<u>Balance</u> <u>8/31/2017</u>	<u>Due within</u> <u>one year</u>
Revenue bonds	\$ 3,925,000	-	165,000	3,760,000	205,000
NJ EIT	1,000,825	-	50,069	950,756	50,068
Compensated Absences	128,451	39,250	23,502	144,199	
	\$ 5,054,276	39,250	238,571	4,854,955	255,068

**Note 6. Pension Plan**

*Description of Plans*

Substantially all of the Authority's employees are covered by the Public Employees' Retirement System (PERS), a cost-sharing multiple-employer defined benefit pension plan which has been established by state statute and is administered by the New Jersey Division of Pension and Benefits (Division). According to the State of New Jersey Administrative Code, all obligations of the System will be assumed by the State of New Jersey should the System terminate. The Division issues a publicly available financial report that includes the financial statements and required supplementary information for the Public Employees Retirement System and Police and Fireman's Retirement System. This report may be obtained by writing to the Division of Pensions and Benefits, PO Box 295, Trenton, New Jersey, 08625 or the report can be accessed on the internet at [www.state.nj.us/treasury/pensions/annrpts.shtml](http://www.state.nj.us/treasury/pensions/annrpts.shtml).

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Public Employees' Retirement System

The Public Employees' Retirement System was established in January, 1955 under the provisions of N.J.S.A. 43:15A to provide retirement, death, disability and medical benefits to certain qualified members. The Public Employees' Retirement System is a cost-sharing multiple-employer plan. Membership is mandatory for substantially all full time employees of the State or any county, Authority, school district or public agency provided the employee is not required to be a member of another State-administered retirement system or other state or local jurisdiction.

Funding Policy

The contribution policy is set by N.J.S.A. 43:15A, Chapter 62, P.L. of 1994, Chapter 115, P.L. of 1997 and N.J.S.A. 18:66, and requires contributions by active members and contributing employers. Plan member and employer contributions may be amended by State of New Jersey legislation. PERS provide for employee contributions of 5.5% of employees' annual compensation, as defined. Employers are required to contribute at an actuarially determined rate in PERS. The current PERS rate is 7.20% of covered payroll. The Authority's contributions to PERS for the years ending August 31, 2017, 2016 and 2015 were \$42,370, \$38,957 and \$35,547 respectively, equal to the required contributions for each year.

Significant Legislation

Chapter 78, P.L. 2011, effective June 28, 2011 made various changes to the manner in which the Public Employees' Retirement System (PERS) and the Police and Firemen's Retirement System (PFRS) operate and to the benefit provisions of those systems.

Chapter 78's provisions impacting employee pension and health benefits include:

- New members of the PERS hired on or after June 28, 2011 (Tier 5 members) will need 30 years of creditable service and age 65 for receipt of the early retirement benefit without a reduction of  $\frac{1}{4}$  of 1% for each month that the member is under age 65.
- The eligibility age to qualify for a service retirement in the PERS is increased from age 63 to 65 for Tier 5 members.
- The annual benefit under special retirement for new PFRS members enrolled after June 28, 2011 (Tier 3 members), will be 60% instead of 65% of the member's final compensation plus 1% for each year of creditable service over 25 years but not to exceed 30 years.
- Increases in active member contribution rates. PERS active member rates increase from 5.5% of annual compensation to 6.5% plus an additional 1% phased-in over 7 years; PFRS active member rate increase from 8.5% to 10%. For fiscal year 2012, the member contribution rates increased in October 2011. The phase-in of the additional incremental member contribution rates for PES members will take place in July of each subsequent fiscal year.
- The payment of automatic cost-of-living adjustment (COLA) additional increases to current and future retirees and beneficiaries is suspended until reactivated as permitted by this law.
- New employee contribution requirements towards the cost of employer-provided health benefit coverage. Employees are required to contribute a certain percentage of the cost of coverage. The rate of contribution is determined based on the employee's annual salary and the selected level of coverage. The increased employee contributions will be phased in over a 4-year period for those employed prior to Chapter 78's effective date with a minimum contribution required to be at least 1.5% of salary.
- In addition, this new legislation changes the method for amortizing the pension systems' unfunded accrued liability (from a level percent of pay method to a level dollar of pay).

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Chapter 1, P.L. 2010, effective May 21, 2010, made a number of changes to the State-administered retirement systems concerning eligibility, the retirement allowance formula, the definition of compensation, the positions eligible for service credit, the non-forfeitable right to a pension, the prosecutor's part of the PERS, special retirement under the PFRS, and employer contributions to the retirement systems.

Also, Chapter 1, P.L. 2010 changed the membership eligibility criteria for new members of PERS from the amount of annual compensation to the number of hours worked weekly. Also, it returned the benefit multiplier for new members of PERS to 1/60<sup>th</sup> from 1/55<sup>th</sup>, and it provided that new members of PERS have the retirement allowance calculated using the average annual compensation for the last five years of service instead of the last three years of service. New members of PERS will no longer receive pension service credit from more than one employer. Pension service credit will be earned for the highest paid position only. For new members of the PFRS, the law capped the maximum compensation that can be used to calculate a pension from these plans at the annual wage contribution base for social security, and requires the pension to be calculated using a three year average annual compensation instead of the last year's salary. This law also closed the Prosecutors Part of the PERS to new members and repealed the law for new members that provided a non-forfeitable right to receive a pension based on the laws of the retirement system in place at the time 5 years of pension service credit is attained. The law also requires the State to make its full pension contribution, defined a 1/7<sup>th</sup> of the required amount, beginning in fiscal years 2012.

Chapter 3, P.L. 2010, effective May 21, 2010, replaced the accidental and ordinary disability retirement for new members of the PERS with disability insurance coverage similar to that provided by the State to individuals enrolled in the State's Defined Contribution Retirement Program.

Chapter 92, P.L. 2007 implemented certain recommendations contained in the December 1, 2006 report of the Joint Legislative Committee on Public Employee Benefits Reform; established a DCRP for elected and certain appointed officials, effective July 1, 2007; the new pension loan interest rate became 4.69% per year, and an \$8.00 processing fee per loan was charged, effective January 1, 2008. The legislation also removed language from existing law that permits the State Treasurer to reduce employer pension contributions needed to fund the Funds and Systems when excess assets are available.

**Note 7: PENSION LIABILITIES**

In 2012, the Governmental Accounting Standards Board issued GASB statement 68. This statement is effective for fiscal years beginning after June 15, 2014. This statement changes the method of reporting the Authority's pension liabilities.

The following represents the Authority's pension liabilities as June 30, 2017:

**Public Employees' Retirement System**

The Authority has a liability of \$1,141,916 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Authority's proportion of the net pension liability was based on a projection of the Authority's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2017, the Authority's proportion is .00490547640%, which would be an increase of 3.39% from its proportion measured as of June 30, 2016.

For the year ended December 31, 2017, the Authority recognized pension expense of \$93,726. At December 31, 2017, the Authority reported deferred outflows of resources and deferred inflows of resources related to PERS from the following sources:

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	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected & actual experience	\$ 26,888	
Changes of assumptions	230,057	229,213
Changes in proportion	75,899	24,463
Net difference between projected and actual earnings on pension plan investments	7,776	
Total	<u>\$ 340,620</u>	<u>253,676</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30,		
2018	\$	69,170
2019		100,494
2020		59,693
2021		(79,806)
2022		(62,607)
Total	<u>\$</u>	<u>86,944</u>

**Actuarial Assumptions**

The total pension liability for the June 30, 2017 measurement date was determined by an actuarial valuation as of July 1, 2016, which was rolled forward to June 30, 2017. This actuarial valuation used the following assumptions, applied to all periods in the measurement:

Inflation rate	2.25%
Salary increases:	
Through 2026	1.65% - 4.15% (based on age)
Thereafter	2.65% - 5.15% (based on age)
Investment rate of return:	7.00%

Pre-retirement mortality rates were based on the RP-2000 Employee Preretirement Mortality Table for male and female active participants. For State employees, mortality tables are set back 4 years for males and females. For local employees, mortality tables are set back 2 years for males and 7 years for females. In addition, the tables provide for future improvements in mortality from the base year of 2013 using a generational approach based on the plan actuary's modified MP-2014 projection scale. Post-retirement mortality rates were based on the RP-2000 Combined Healthy Male and Female Mortality Tables (set back 1 year for males and females) for service retirements and beneficiaries of former members and a one-year static projection based on mortality improvement Scale AA. In addition, the tables for service retirements and beneficiaries of former members provide for future improvements in mortality from the base year of 2013 using a generational approach based on the plan actuary's modified

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MP-2014 projection scale. Disability retirement rates used to value disabled retirees were based on the RP-2000 Disabled Mortality Table (set back 3 years for males and set forward 1 year for females).

The actuarial assumptions used in the July 1, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2011 to June 30, 2014. It is likely that future experience will not exactly conform to these assumptions. To the extent that actual experience deviates from these assumptions, the emerging liabilities may be higher or lower than anticipated. The more experience deviates, the larger the impact on future financial statements.

In accordance with State statute, the long-term expected rate of return on plan investments (7.00% at June 30, 2017) is determined by the State Treasurer, after consultation with the Directors of the Division of Investments and Division of Pensions and Benefits, the board of trustees and the actuaries. The long term expected rate of return was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflations. Best estimates of arithmetic real rates of return for each major asset class included in PERS's target asset allocation as of June 30, 2017 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Absolute return/risk mitigation	5.00%	5.51%
Cash equivalents	5.50%	1.00%
U.S. Treasuries	3.00%	1.87%
Investment grade credit	10.00%	3.78%
Public high yield	2.50%	6.82%
Global diversified credit	5.00%	7.10%
Credit oriented hedge funds	1.00%	6.60%
Debt related private equity	2.00%	10.63%
Debt related real estate	1.00%	6.61%
Private real estate	2.50%	11.83%
Equity related real estate	6.25%	9.23%
U.S. equity	30.00%	8.19%
Non-U.S. developed markets equity	11.50%	9.00%
Emerging markets equity	6.50%	11.64%
Buyouts/venture capital	8.25%	13.08%

*Discount Rate*

The discount rate used to measure the total pension liability was 5.00% as of June 30, 2017. This single blended discount rate was based on the long-term expected rate of return on pension plan investments of 7.00%, and a municipal bond rate of 3.58% as of June 30, 2017, based on the Bond Buyer Go 20-Bond Municipal Bond Index which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made based on the contribution rate in the most recent fiscal year. The State employer contributed 40% of the actuarially determined contributions and the local employers

**EGG HARBOR TOWNSHIP MUNICIPAL UTILITIES AUTHORITY**  
**(A component unit of the Township of Egg Harbor)**  
**NOTES TO FINANCIAL STATEMENTS**  
**AUGUST 31, 2017 AND 2016**

contributed 100% of the actuarially determined contributions. Based on those assumptions, the plan's fiduciary net position was projected to be available to make projected future benefit payments of current plan members through 2040. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2040 and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liability.

*Sensitivity of the Authority's proportionate share of the net pension liability to changes in the discount rate.*

The following presents the Authority's proportionate share of the net pension liability calculated using the discount rate of 5.00%, as well as what the Authority's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (4.00%) or 1-percentage point higher (6.00%) than the current rate:

	1% Decrease (4.00%)	Current Discount Rate (5.00%)	1% Increase (6.00%)
Authority's proportionate share of the net pension liability	\$ 1,370,024	1,141,916	\$ 952,120

*Pension plan fiduciary net position.*

Detailed information about the pension plan's fiduciary net position is available in the separately issued PERS financial report.

**Note 8. Property, Plant & Equipment**

	Balance 08/31/16	Additions	Deletions	Balance 08/31/17
Sewer Lines	\$ 27,950,352	532,253		28,482,605
Vehicles	53,400			53,400
Office Equipment	151,058			151,058
Operations Equipment	517,995	30,439		548,434
Contributed Capital/Grants	29,199,663			29,199,663
Total in service	57,872,468	562,692	-	58,435,160
Construction in progress	454,751	1,229,370	(532,253)	1,151,868
Total Plant and Equipment	58,327,219	1,792,062	(532,253)	59,587,028
Accumulated Depreciation	(23,010,970)	(1,159,770)		(24,170,740)
Net plant and equipment	\$ 35,316,249	632,292	(532,253)	35,416,288



**EGG HARBOR TOWNSHIP MUNICIPAL UTILITIES AUTHORITY**  
**(A component unit of the Township of Egg Harbor)**  
**NOTES TO FINANCIAL STATEMENTS**  
**AUGUST 31, 2017 AND 2016**

**Note 9. Contingencies**

In the normal course of business, the Authority may periodically be named as a defendant in litigation. In the opinion of management, supported by legal counsel, the impact of any such matters, if adversely determined, would not have a material adverse effect on the financial statement or operations of the Authority.

**Note 10. Risk Management**

The Authority is exposed to various risks of loss to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

Property, and Liability Insurance – The Authority maintains commercial insurance for property, liability and surety bonds.

The Authority made no payments in excess of the insurance coverage during the fiscal year. Also, there was no decrease in insurance coverage.

From time to time, the Authority may be a defendant in legal proceedings relating to its operations as a utility authority.

**Note 11. Compensated Absences**

Authority employees are entitled to fifteen paid sick days per year and are allowed to accumulate up to a maximum of two hundred and forty (240) days for sick time by carrying over unused sick days from year-to-year. In the event that an employee terminates employment with the Authority, the employee is entitled to payment for any unused sick days based on length of service and a percent of salary. Vacation is earned depending on length of service, up to a maximum of 23 working days. Vacation days may be accumulated and carried forward. In the event that an employee terminates employment with the Authority, the employee is entitled to payment for any unused vacation time up to a maximum of twenty (20) days. The compensated absence payable is shown as a liability on the financial statements.

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**EGG HARBOR TOWNSHIP MUNICIPAL UTILITIES AUTHORITY**  
**(A component unit of the Township of Egg Harbor)**  
**NOTES TO FINANCIAL STATEMENTS**  
**AUGUST 31, 2017 AND 2016**  
**Note 12. Net Assets and Contributed Capital**

Net assets present the difference between assets and liabilities. The restricted net assets amounts were as follows:

	<u>August 31</u>	
	<u>2017</u>	<u>2016</u>
<b>Invested in Capital Assets, Net of related Liabilities</b>		
Net plant and equipment in service	\$ 35,416,288	35,316,249
Debt	(4,710,756)	(4,925,825)
Due from NJ EIT	4,154	113,509
Accrued interest payable	(19,241)	(2,754)
	<u>30,690,445</u>	<u>30,501,179</u>
 <b>Restricted for Capital Activity and Debt Service</b>		
Restricted cash and equivalents	686,466	665,036
Deductions:		
Current liabilities payable from restricted assets	(315,054)	(304,539)
	<u>371,412</u>	<u>360,497</u>
 <b>Unrestricted</b>	<u>1,025,959</u>	<u>1,329,247</u>
 <b>Total net assets</b>	<u>\$ 32,087,816</u>	<u>32,190,923</u>

**Note 13. Subsequent Event**

The Authority has evaluated subsequent events through May 29, 2018, the date which the financial statements were available to be issued, and no items were noted for disclosure.

## **SUPPLEMENTARY INFORMATION**

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# FORD - SCOTT

& ASSOCIATES, L.L.C.

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## Independent Auditor's Report

The Chairman and Members of the  
Egg Harbor Township Municipal Utilities Authority  
(A component unit of the Township of Egg Harbor)  
Egg Harbor Township, New Jersey

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements list in the table of contents of the Egg Harbor Township Municipal Utilities Authority, a component unit of the Township of Egg Harbor, as of and for the year ended August 31, 2017, and the related notes to the financial statements, which collectively comprise the authority's basic financial statements, and have issued our report thereon dated May 29, 2018.

### **Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Authority's control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the authority's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Ford, Scott & Associates, L.L.C.*

**FORD, SCOTT & ASSOCIATES, L.L.C.  
CERTIFIED PUBLIC ACCOUNTANTS**

*Nancy Sbrolla*

**Nancy Sbrolla  
Certified Public Accountant  
Registered Municipal Accountant  
No. 542**

**May 29, 2018**

**SCHEDULE 1**

**EGG HARBOR TOWNSHIP MUNICIPAL UTILITIES AUTHORITY**  
**(A component unit of the Township of Egg Harbor)**  
**SCHEDULE OF CHANGES IN REQUIRED FUNDS**  
**FOR THE YEAR ENDED AUGUST 31, 2017**

	Investment in capital assets				Totals		
	General fund	Debt service fund	Improvement fund	Construction fund	Investment in capital assets	2017	2016
<b>Operating Revenues:</b>							
User Charges	\$ 5,904,804					5,904,804	5,821,652
Delinquent Charges	68,973					68,973	66,157
Miscellaneous	13,028					13,028	38,167
<b>Total Operating Revenues</b>	<b>5,986,805</b>					<b>5,986,805</b>	<b>5,925,976</b>
<b>Operating Expenses</b>							
Administrative and General	857,308					857,308	934,294
Cost of Providing Services	3,998,095				1,159,770	3,998,095	4,299,229
Depreciation					1,159,770	1,159,770	1,207,044
<b>Total Operating Expenses</b>	<b>4,855,403</b>				1,159,770	6,015,173	6,440,567
<b>Operating Income</b>	<b>1,131,402</b>				(1,159,770)	(28,368)	(514,591)
<b>Non-Operating Revenues (Expenses)</b>							
Connection Fees	274,233					274,233	305,383
Investment Income	11,227					11,227	4,319
Developer contributions of systems	-					-	-
Amortization of bond issue costs	(5,188)					(5,188)	(2,594)
Amortization of premium on refunding	4,281					4,281	2,141
Municipal Contribution	(250,000)					(250,000)	(250,000)
Purchase of Fixed Assets					1,133,968	(109,293)	(149,700)
Bond Interest	(215,068)	(109,293)				-	-
Bond Payments	(180,514)	(109,293)			1,349,036	(74,739)	(90,451)
<b>Net Income (Loss) Before Transfers</b>	<b>950,888</b>	<b>(109,293)</b>	<b>(1,133,968)</b>	<b>-</b>	<b>189,266</b>	<b>(103,107)</b>	<b>(605,042)</b>
Transfers Between Funds:							
Restricted Funds	(950,888)	120,208	830,680			-	-
<b>Net increase (Decrease) in Fund Balance</b>	<b>(0)</b>	<b>10,915</b>	<b>(303,286)</b>	<b>-</b>	<b>189,266</b>	<b>(103,107)</b>	<b>(605,042)</b>
Fund Equity September 1	210,000	360,497	1,119,247	-	30,501,179	32,190,923	32,795,965
Fund Equity August 31	210,000	371,412	815,959	-	30,690,445	32,087,816	32,190,923
<b>Ending Net Assets consists of:</b>							
Reserved Net Assets		371,412		-		371,412	360,497
Unreserved Net Assets	210,000		1,957,875			2,167,875	2,734,516
Unfunded Pension Liability (Deficit)			(1,141,916)			(1,141,916)	(1,405,269)
Investment in Fixed Capital					30,690,445	30,690,445	30,501,179
<b>Total Fund Equity August 31</b>	<b>\$ 210,000</b>	<b>371,412</b>	<b>815,959</b>	<b>-</b>	<b>30,690,445</b>	<b>32,087,816</b>	<b>32,190,923</b>

**EGG HARBOR TOWNSHIP MUNICIPAL UTILITIES AUTHORITY**  
**(A component unit of the Township of Egg Harbor)**  
**SCHEDULE OF APPROPRIATIONS COMPARED TO BUDGET**  
**FOR THE YEAR ENDED AUGUST 31, 2017**

	2017 <u>BUDGET</u>	2017 <u>ACTUAL</u>	UNEXPENDED BALANCE OR (EXCESS)	2016 <u>ACTUAL</u>
<u>Revenues:</u>				
User Charges	\$ 5,839,000	5,904,804	(65,804)	5,821,652
Delinquent Charges	60,000	68,973	(8,973)	66,157
Investment Income	3,000	11,227	(8,227)	4,319
Connection Fees	275,000	274,233	767	305,383
Miscellaneous	<u>25,000</u>	<u>13,028</u>	<u>11,972</u>	<u>38,167</u>
Subtotal	<u>6,202,000</u>	<u>6,272,265</u>	<u>(70,265)</u>	<u>6,235,678</u>
<u>Operating Expenses:</u>				
Administrative and General				
Personal Services				
Board Commissioners	12,000	11,667	333	12,000
Salaries	270,000	285,092	(15,092)	273,967
Employee Benefits				
PERS	40,000	90,653	(50,653)	165,666
Social Security	28,944	27,987	957	26,247
Unemployment	3,027	1,798	1,229	1,746
NJ Health Plan	155,000	138,465	16,535	133,522
Administrative				
Legal	150,000	158,457	(8,457)	167,315
Auditor	18,500	18,500	-	18,500
Insurance	23,500	21,360	2,140	22,384
Office rent	50,000	50,000	-	50,000
Billing and Postage	45,000	35,221	9,779	44,673
Miscellaneous	<u>23,000</u>	<u>18,108</u>	<u>4,892</u>	<u>18,274</u>
Total Administrative and General	<u>818,971</u>	<u>857,308</u>	<u>(38,337)</u>	<u>934,294</u>



**EGG HARBOR TOWNSHIP MUNICIPAL UTILITIES AUTHORITY**  
**(A component unit of the Township of Egg Harbor)**  
**SCHEDULE OF APPROPRIATIONS COMPARED TO BUDGET**  
**FOR THE YEAR ENDED AUGUST 31, 2017**

	2017 <u>BUDGET</u>	2017 <u>ACTUAL</u>	UNEXPENDED BALANCE OR (EXCESS)	2016 <u>ACTUAL</u>
<u>Cost of Providing Services:</u>				
Operating & Maintenance				
Treatment Charges	\$ 2,650,000	2,567,358	82,642	2,607,658
Repairs and Maintenance	1,200,000	974,535	225,465	1,224,806
Line Rental	65,000	62,230	2,770	62,108
Utilities	220,000	193,406	26,594	208,302
Operations Salaries	83,000	81,146	1,854	82,447
Special Engineer	40,000	64,957	(24,957)	55,831
Contract Services	38,500	32,031	6,469	32,540
Miscellaneous	25,000	22,432	2,568	25,537
Total Cost of Providing Services	<u>4,321,500</u>	<u>3,998,095</u>	<u>323,405</u>	<u>4,299,229</u>
<u>Interest Expense</u>	<u>145,429</u>	<u>109,293</u>	<u>36,136</u>	<u>149,700</u>
<u>Other Costs Funded By</u>				
<u>Operating Revenues:</u>				
Municipal Contribution	250,000	250,000	-	250,000
Bond Principal	215,068	215,068	-	225,572
Capital Outlay		207,302	(207,302)	115,920
Total Other Costs Funded By Operating Revenues	<u>465,068</u>	<u>672,370</u>	<u>(207,302)</u>	<u>591,492</u>
Total Costs Funded By Operating Revenues	<u>\$ 5,750,968</u>	<u>5,637,066</u>	<u>113,902</u>	<u>5,974,715</u>

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## **REQUIRED SUPPLEMENTARY INFORMATION II**

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**EGG HARBOR TOWNSHIP MUNICIPAL UTILITIES AUTHORITY**  
 (A component unit of the Township of Egg Harbor)  
**Schedule of the Authority's Proportionate Share of the Net Pension Liability**  
**Public Employee Retirement System**  
**Last Five Fiscal Years**

	2017	2016	2015	2014	2013
Authority's proportion of the net pension liability (asset)	0.0049054764%	0.0047447859%	0.0045312968%	0.0043119386%	0.0046497611%
Authority's proportionate of the net pension liability (asset)	1,141,916	1,405,269	807,313	888,662	807,313
Authority's covered payroll	\$ 351,782	339,853	325,070	310,771	294,308
Authority's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	324.61%	413.49%	248.35%	285.95%	274.31%
Plan fiduciary net position as a percentage of the total pension liability	48.10%	40.14%	47.93%	52.08%	48.72%

Source: GASB 68 report on Public Employees' Retirement System; Authority records

Note: This schedule is required by GASB 68 to be show information for a 10 year period. However, information is only currently available for five years. Additional years will be presented as they become available.

**EGG HARBOR TOWNSHIP MUNICIPAL UTILITIES AUTHORITY**  
(A component unit of the Township of Egg Harbor)  
**Schedule of Authority Contributions**  
**Public Employee Retirement System**  
**Last Five Fiscal Years**

	2017	2016	2015	2014	2013
Contractually required contribution	\$ 45,444	42,152	\$ 35,547	\$ 35,035	\$ 35,547
Contributions in relation to the contractually required contribution	<u>45,444</u>	<u>42,152</u>	<u>35,547</u>	<u>35,035</u>	<u>35,547</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>
Authority's covered-employee payroll	\$ 351,782	339,853	\$ 325,070	\$ 310,771	\$ 294,308
Contributions as a percentage of covered-employee payroll	12.92%	12.40%	10.94%	11.27%	12.08%

Source: GASB 68 report on Public Employees' Retirement System; Authority records

Note: This schedule is required by GASB 68 to be show information for a 10 year period. However, information is only currently available for five years. Additional years will be presented as they become available.

**EGG HARBOR TOWNSHIP MUNICIPAL UTILITIES AUTHORITY  
(A COMPONENT UNIT OF THE TOWNSHIP OF EGG HARBOR)  
FOR THE YEAR ENDED AUGUST 31, 2017**

**Schedule of Findings and Responses**

**NONE**

**Status of Prior Year Findings and Reportable Conditions**

**NONE**